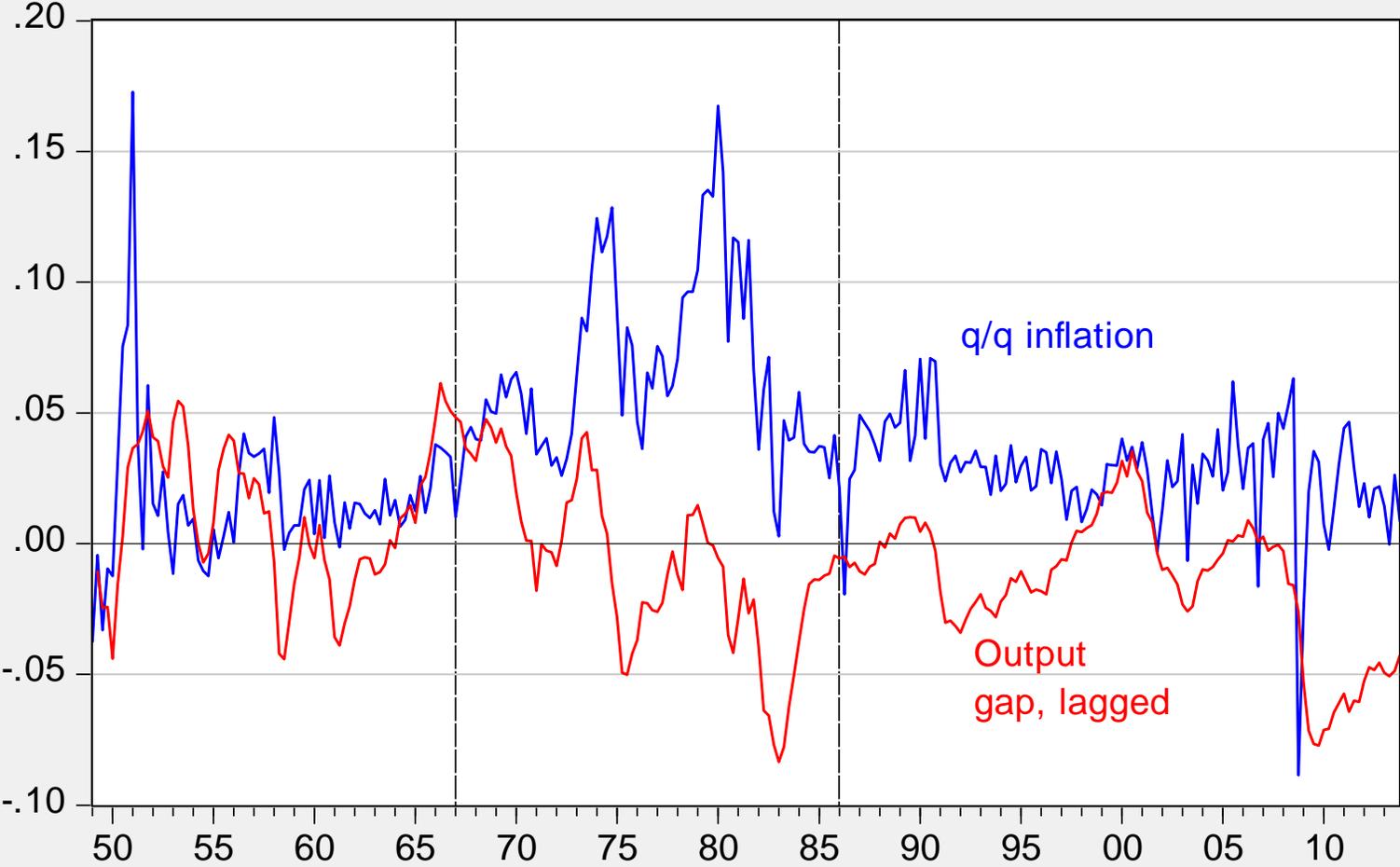


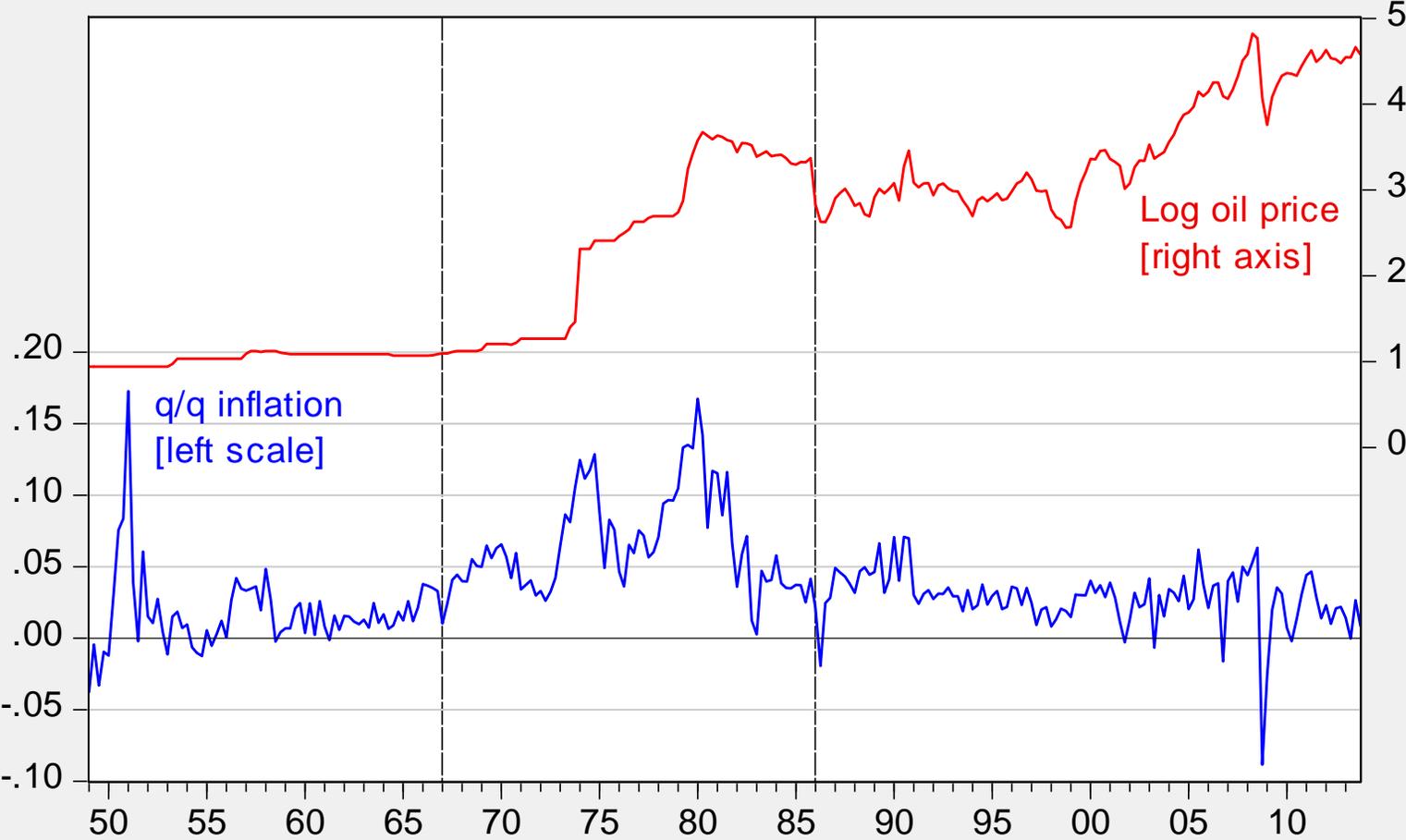
Economics 435  
The Financial System  
(2/10/14)

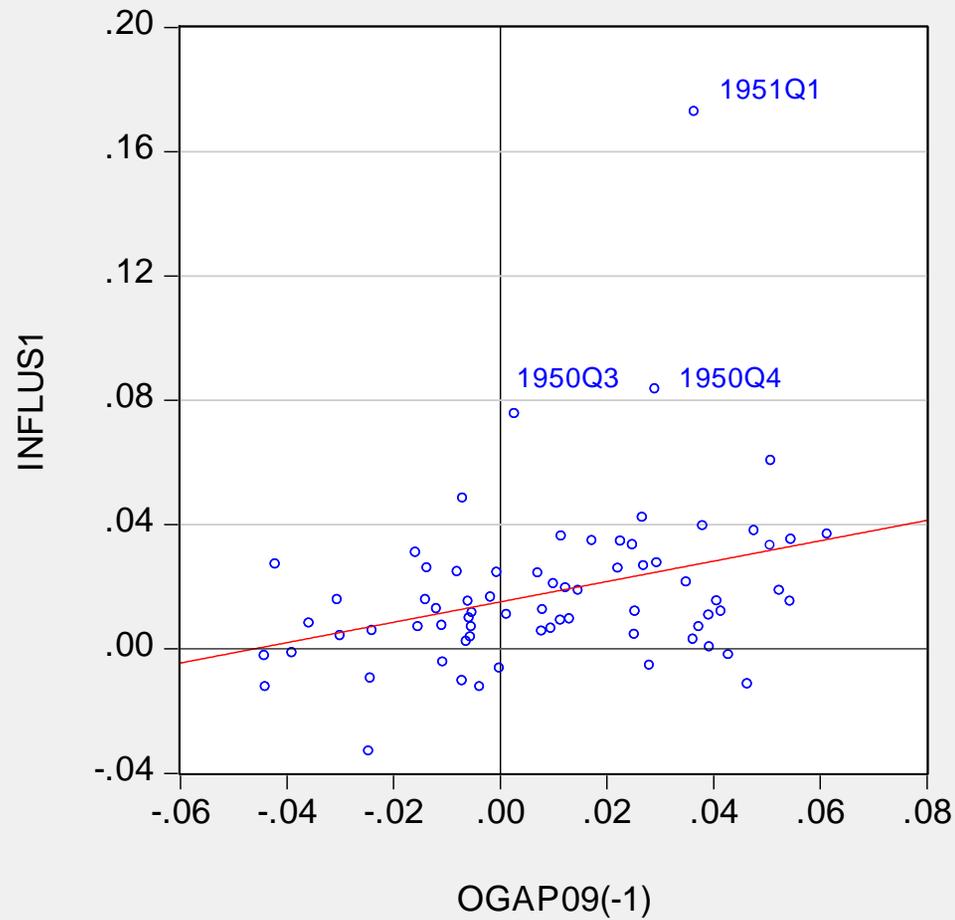
Instructor: Prof. Menzie Chinn  
UW Madison  
Spring 2014

# Inflation and Lagged Output Gap

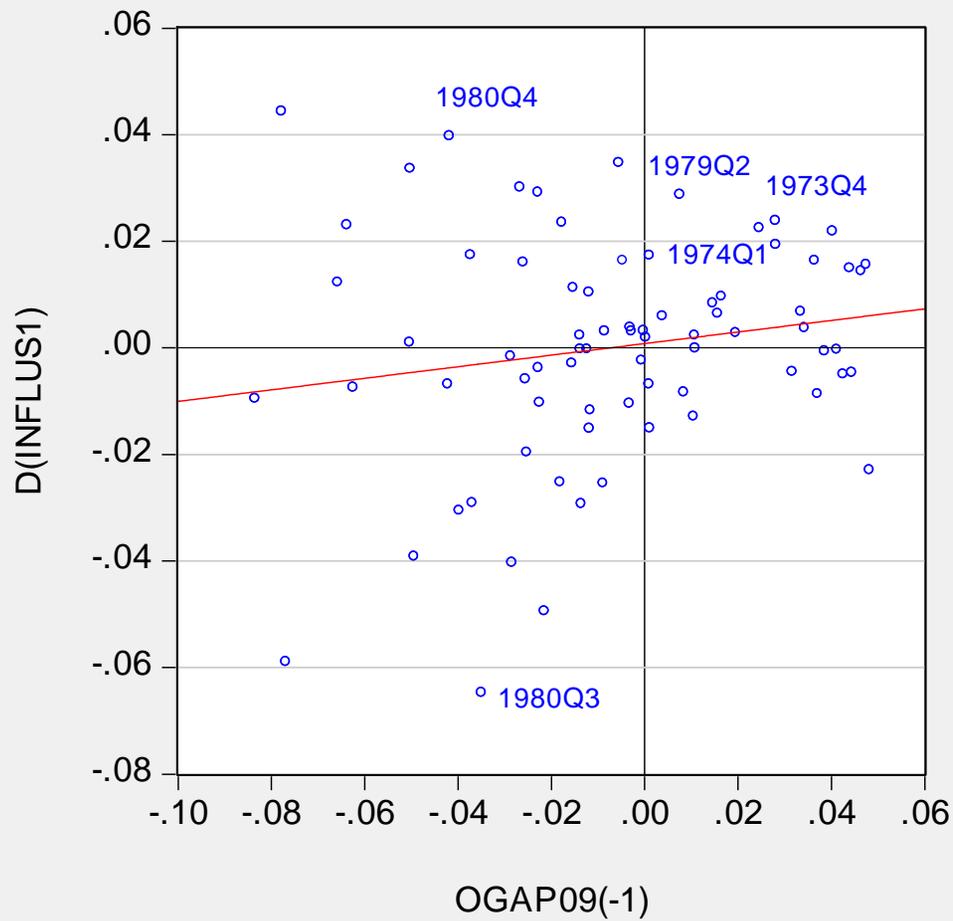


# Inflation and oil prices

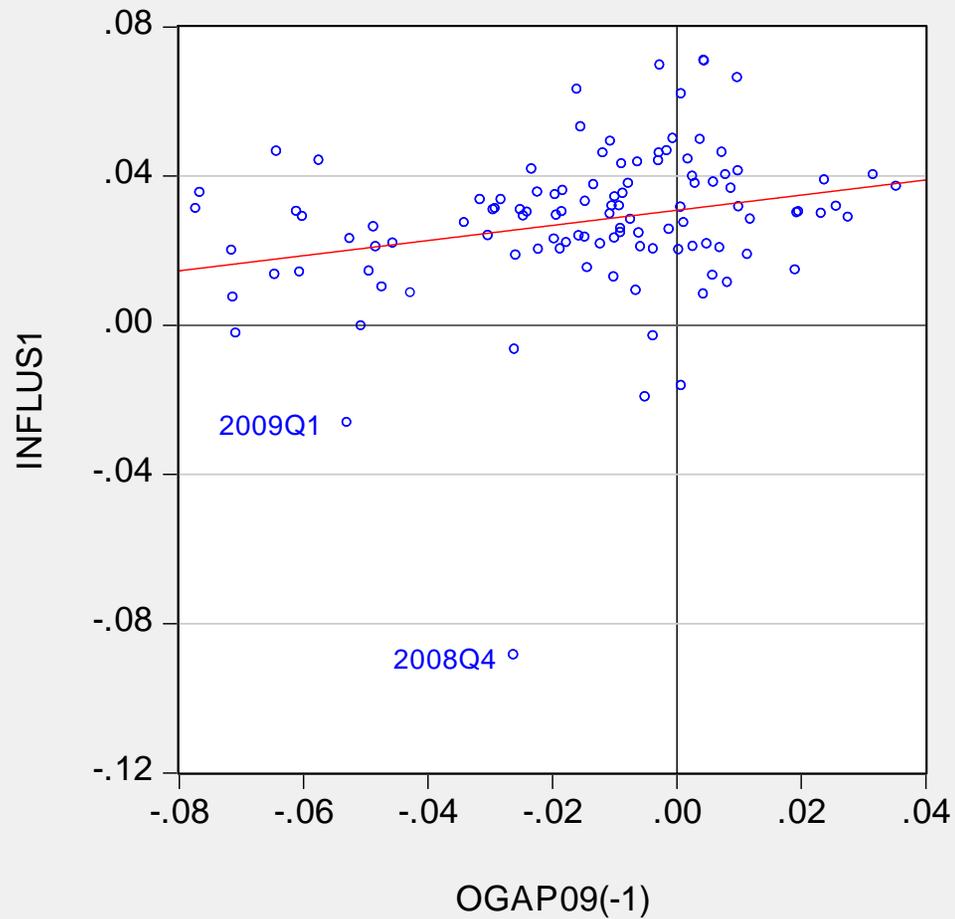




$$\pi_t = \cancel{\pi_t^e} + f\left(\frac{Y_{t-1} - Y^*}{Y^*}\right)$$



$$\pi_t = \pi_{t-1} + f\left(\frac{Y_{t-1} - Y^*}{Y^*}\right)$$



$$\pi_t = \overline{\pi_t^e} + f\left(\frac{Y_{t-1} - Y^*}{Y^*}\right)$$

Fisher relation:  $r = i - \pi^e$

